

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6781

BILL NUMBER: HB 1578

NOTE PREPARED: Jan 5, 2011

BILL AMENDED:

SUBJECT: Madison County Food and Beverage Tax.

FIRST AUTHOR: Rep. Austin

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☐ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: The bill permits the Madison County Council to increase the Madison County food and beverage tax from 1% to 2% *for two years* from July 1, 2011, through June 30, 2013. The bill provides that 50% of the additional tax revenue amount shall be distributed to the cities and towns and the County based on population. The bill provides that the remaining 50% of the additional revenue shall be distributed to the county for preserving, improving, equipping, operating, maintaining, promoting, and retiring debt on the Paramount Theater. The bill permits the County to make grants to a foundation that will carry out these purposes.

Effective Date: Upon passage.

Explanation of State Expenditures: Madison County Food and Beverage tax is collected in the same manner as the state Sales Tax. The Department of State Revenue could require some administrative time to make adjustments in their revenue processing in order to remit the Madison Food and Beverage Tax at a 2% rate.

Explanation of State Revenues:

Explanation of Local Expenditures: Under the provisions of the bill, the revenue generated from a 2% tax rate would be required to be distributed as follows: 50% to the economic development project fund, 25% to the Paramount Theater Fund, and 25% to the cities, towns, and county based on populations for general fund operating revenues.

The following table presents an expenditure distribution, under the bill, by each fund with the estimated

revenue collections that a 2% rate may generate during CY 2011, CY 2012, and CY 2013. The table below shows the estimated revenue that would be distributed at a 2% rate (the original 1% rate currently in effect and the proposed additional 1% rate.

Estimated Revenue Distribution at a Tax Rate of 2%*				
CY	Economic Development Project Fund (50%)	Paramount Theater Fund (25%)	Cities, Towns, County for General Fund Operating (25%)	TOTAL at 2% Tax Rate
2012	\$1,484,890	\$742,450	\$742,450	\$2,969,790
*Estimates are rounded to nearest tenth.				

When the tax rate is at 1%, the bill specifies that all revenue would go to the County's economic development project fund.

Explanation of Local Revenues: *Summary:* An additional 1% rate is estimated to generate \$0.84 M in CY 2011, \$1.48 M in CY 2012, and \$0.76 M in CY 2013.

Background Information- The effective date of the bill would give, at most, seven months of additional revenue in CY 2011. The date in the bill for the additional 1% rate to cease is June 30, 2013. Therefore, the CY 2013 additional revenue estimate is for a half year.

Notes on Estimate Methodology- The estimates were generated using the CY 2010 revenue total from the Madison County Food and Beverage Tax as the base year. The CY 2010 base of \$1.65 M was grown by the Madison County personal income percent growth estimates to arrive at an estimate for CY 2011, CY 2012, and CY 2013. The personal income percent growth rates are from the IHS Global Insight, Winter 2010 County Forecast.

An elasticity of demand ratio was then applied to the estimates. The elasticity factor would account for the likelihood that a doubling of the tax rate would not necessarily lead to a doubling of the revenue generated. The elasticity ratio used was 0.86 which is consistent in economic academic literature.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Madison County, City of Anderson.

Information Sources: Madison County Auditor; State Auditor's Data; IHS Global Insight, Winter 2010 County Forecast (Indiana Counties).

Fiscal Analyst: Chris Baker, 317-232-9851.